

A ROADMAP TO *Recovery*

Presented by **Councilmember Carl DeMaio**



Proposed **FY 2012**
Balanced Budget
- AND -

Long-Range Restructuring Plan for City Government



OUR DESTINATION IS
clear

**... to create a city government we can
be proud of again.**

And to get there, we need...

A ROADMAP TO
Recovery

Let's unite and make this journey together...

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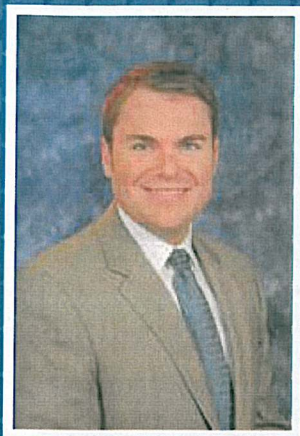
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A Message From **Carl DeMaio**

"A New Approach To City Government"

My Fellow San Diegans,

We have so much to be proud of as San Diegans -- from our amazing environment to our diverse communities; from our world-respected research institutes to our leading companies.

Unfortunately, when it comes to our city government, San Diegans have been let down time and time again.

Incremental and limited reforms have not solved our structural deficits, have not saved our basic services from cuts, and have not resulted in restoring the public's trust and confidence.

We need major change -- and a new approach to achieving that change. Moreover, we need nothing less than a redefinition of what our city government does and how it does it.

To achieve lasting change, I present to you for your consideration this **Roadmap to Recovery** -- a comprehensive framework for solving the city's immediate and long-term financial problems.

Emulating the Bankruptcy Process

Given the gravity of the city's financial problems, some have proposed bankruptcy as the vehicle for reform. I strongly disagree, but have incorporated some elements from a traditional bankruptcy proceeding into the Roadmap -- achieving each without the stigma, expense, and uncertainty of a bankruptcy filing.

Balancing the Budget - Protecting Core Services

The Roadmap balances the FY 2012 budget with \$75-90 million in costs savings -- and without reducing core services in police, fire, libraries and parks.

Reforming the Pension and Labor Costs

By comprehensively reforming salaries and benefits the Roadmap brings the cost of operating our city government down to sustainable levels in line with our local labor market.

To hold city leaders accountable, I believe we should work together to prepare a plan, submit it to voters, and be bound by it. By articulating 10 Commitments -- and by placing several items up for a public vote -- the Roadmap puts reforms into an **irrevocable contract imposed on city leaders by the public**.

With the defeat of Prop D, San Diegans have issued a mandate for reform and change in city government. This Roadmap seeks to fulfill that mandate -- and deliver our city to the destination of a city government we can be proud of again.

Carl DeMaio

A ROADMAP TO Recovery

10 Commitments

10 Commitments to Create a City Government We Can Be Proud of Again

→ **Commitment 1** *Accountability for Results*

City government should hold all employees accountable for clear performance goals and continual improvement – and taxpayers should receive an annual "Performance Report Card" on city government.

→ **Commitment 2** *Open Government*

San Diegans deserve a city government that conducts all business in an open and transparent manner.

→ **Commitment 3** *Back to Basics - Clean and Safe Neighborhoods*

City government should restructure its operations around a clear mission: to create clean and safe neighborhoods – and utilize new vehicles and partnerships to deliver these services.

→ **Commitment 4** *Comprehensive Pension Reform*

City employees should receive a reliable retirement allowance that is no better and no worse than the average San Diego taxpayer – and city employees should assume a fair share of the risks and costs of these benefits.

→ **Commitment 5** *Reform City Salaries and Labor Contracts*

City labor contracts should be reformed and compensation for city employees should be benchmarked to the local labor market.

→ **Commitment 6** *Fair and Open Competitive Bidding*

To achieve efficiencies in city operations and implement the will of the voters, open and fair competitive bidding on city services should be conducted on a regular basis.

→ **Commitment 7** *Jobs-Friendly Policies*

City government should be a help – not a hindrance – to job creation and retention in our region through small businesses assistance programs and development programs targeting four core sectors (Tourism, Defense, High Tech, and Clean Tech)

→ **Commitment 8** *Rebuilding City Infrastructure*

After years of neglecting maintenance of our streets, sidewalks and public facilities, city government must commit dedicated financing for and improved management of city infrastructure.

→ **Commitment 9** *Regional Government Solutions*

Funding and delivery of some city functions should be consolidated between the City and the county government, Port of San Diego, and Redevelopment Agency.

→ **Commitment 10** *Lead by Example*

City politicians should lead by example by reforming their own perks of office and their own pensions.

"Using these 10 Commitments as a guide, city leaders should prepare detailed implementation plans, submit key elements to voters at the next election, and be bound by these commitments."

– Carl DeMaio

Imposition of Reforms By Voters Through Ballot Measures

One of the only attractive features of a bankruptcy proceeding is that a judge can hold a business accountable for implementing reforms and making changes. As an alternative, the Roadmap to Recovery suggests the ballot measure process to recreate that accountability mechanism in city government.

Once approved by the voters, a ballot measure would bind and commit city leaders to follow a specific course and achieve specific targets. These ballot measures should have specific and concrete language and requirements for achieving reform.

Charter Amendment: Imposition of General Fund Spending Cap and City-Wide Labor Cost Cap

The Charter would be amended to impose five-years of caps on General Fund spending as reflected in the five year fiscal forecast. The Charter would also be amended to cap "labor costs" city-wide for five years using the FY 2011 adopted budget as a baseline. "Net labor costs" is defined as total amount of taxpayer monies spent on salaries, overtime, special pay, and fringe benefits (including pension and health care benefits.) The City Auditor would certify whether city leaders adhere to the annual labor cost cap.

The Mayor and the City Council would have to negotiate labor contracts and adopt budgets over the next five years that stay within the caps. The result would be more prudent decisions on the size of the city workforce, controls on salaries and overtime paid to city workers, and more affordable and rational employee benefit packages.

Most importantly, the Spending Cap would contain specific guidelines on how any surpluses could be spent:

- Up to 25% for additional infrastructure maintenance and repair projects

- Up to 25% for service restorations

- At least 50% for debt reduction or reserves

Charter Amendment: Pension Reform

The pension reform process outlined on the following page would be incorporated into the one or more ballot measures for imposition by the public on city government. By putting these reforms into a Charter Amendment, any sections of the Charter that may need modification for full implementation of the reforms can be harmonized with the reform package.

Charter Amendment: Infrastructure Reserve Fund

To restore an adequate funding stream to repair and maintain community infrastructure, as well as to provide greater enforcement of the labor cost spending cap, the measure requires that any revenues collected in excess of 2% each year for the next five years be allocated to core infrastructure projects. The measure should specify that the Mayor and Council give priority to repairs of roads, sidewalks, and public facilities in the selection of infrastructure projects to be funded from these revenues.

City's Status Quo Forecast

Status Quo (\$ in millions)	FY 12	FY 13	FY 14	FY 15	FY 16
General Fund Spending Level	\$1,154.2	\$1,180.1	\$1,204.6	\$1,216.4	\$ TBD
Defined Benefit Pension Payment	\$200	\$218	\$235	\$251	\$ 267
General Fund Revenues	\$1,081.8	\$1,111.6	\$1,134.7	\$1,168.3	\$ TBD
Projected General Fund Deficits	\$(72.4)	\$(68.5)	\$(69.9)	\$(48.1)	\$ TBD

Proposed Five Year Recovery Plan

Element of Recovery Plan	FY 12	FY 13	FY 14	FY 15	FY 16
Baseline General Fund Spending Level	\$1,154.2	\$1,180.1	\$1,204.6	\$1,216.4	\$TBD
Reorganization and Streamlining Savings	-\$7.65	-\$7.44	-\$7.24	-\$7.05	-\$6.87
Managed Competition Savings	-\$11.7 M	-\$22.2 M	-\$21.05 M	-\$20.0 M	-\$19.0 M
Full Reform Option on Retiree Health	-\$21.47 M	-\$24.80 M	-\$28.23 M	-\$31.56 M	-\$18.8 M+
Other Reforms	-\$43.31	-\$53.32	-\$76.14	-\$88.47	-\$46.02
Restoration of Public Safety	+\$3M	+\$6M	+\$6M	+\$7M	+\$8M
Imposed General Fund Spending Cap	\$1,070.0 M	\$1,086.6 M	\$1,087.1 M	\$1,117.0 M	\$TBD
Baseline Defined Benefit Pension Payment	\$200.0 M	\$218.3 M	\$235.3 M	\$251.3 M	\$266.6 M
Impact of "Pensionable Pay" Freeze	-\$8.1	-\$18.0	-\$28.8	-\$40.7	-\$53.8
Impact of Streamlining/Managed Comp	-\$ -	-\$ -	-\$.9	-\$1.6	-\$1.9
Impact of Opt-Out Programs	-\$TBD	-\$TBD	-\$TBD	-\$TBD	-\$TBD
New Projected Pension Payment	\$191.9 M	\$199.4 M	\$204.9 M	\$229.0 M	\$237.8 M
"Share-in-Savings" Fund for Employee Bonuses	NA	NA	NA	\$20.4 M	\$26.9
Net Take-Home Pay Increase from Opt Out Programs	TBD	TBD	TBD	TBD	TBD
Infrastructure Lock-Box Fund	NA	\$8.16	\$9.20	\$20.29	\$22.32
Projected General Fund Surplus	\$11.8	\$15.14	\$28.86	\$25.44	\$23.73*

*See Full Forecast for FY 2016 Detailed Adjustments

**Proposed surplus distribution framework:

- Up to 25% for additional infrastructure maintenance and repair projects
- Up to 25% for service restorations
- 50% for debt restructuring or reserves

Other Reforms Pending Approval

Element of Recovery Plan	FY 12	FY 13	FY 14	FY 15	FY 16
Substantially Equal Share on Investment Performance	\$TBD	\$TBD	\$TBD	\$TBD	\$TBD
Impact of "Opt-Out" Pension Plan Vehicle	\$TBD	\$TBD	\$TBD	\$TBD	\$TBD
Adjustment to Convention Center Debt Service	NA	NA	\$0 to \$9.2	\$0 to \$13.7	\$0 to \$13.7

A ROADMAP TO Recovery

Reforming San Diego City Government

Process For Reforming Pension Benefits ... For Existing Employees

Step 1: Establish Clear Pension Reform Target

Establish Hard Target to Reduce City Pension Costs

Assuming city labor costs are capped for five years, establish a target of 20% reduction in the taxpayer's cost for the city's annual defined benefit pension payment by FY 2016

Step 2: Reduce and Freeze "Pensionable Pay"

Salary Reduction and Reform of Special Pays

Reducing and freezing "pensionable pay" is a legal and powerful method to reducing the city's total pension debt and annual pension costs. Base salaries plus pensionable special pays should be reduced by 2 to 9% (depending on bargaining units), then frozen for the full five years of the recovery plan.

Adopt Total Net Compensation Model for Each Classification

Once base salaries are capped for the five year period, and in preparation for the "opt-out" pension reform plan, reform Charter Section 130 to adopt a "net compensation" model for city employee classifications. A total sum of compensation for each city classification would be provided, along with a standard "benefits allowance" that provides for all fringe benefits (including pension costs). Employees in the higher pension benefit level will see less take-home pay than employees in lower, more affordable pension benefit levels.

Step 3: Require Fair Share of Costs and Risks for Pensions

Mandate Substantially Equal Contributions by City Employees

Eliminate all offsets to city employee contributions and require maximum allowable cost to be charged to city employees for the cost of their pensions.

Examine Requiring City Employees to Share Equally in Pension Risks

Should the City Attorney's "substantially equal" case on sharing investment costs and risks be successful,

examine requiring city employees to share equally in pension investment risks, losses, and benefits.

Step 4: Transition to Affordable Pension Plans

Create Defined Contribution Plan

Provide simple 401(k) plan to all new hires and offer existing employees the ability to "freeze" their current pension benefit levels by leaving the system and enrolling in the 401(k) plan immediately.

Offer Lower Tier Options

Provide hybrid defined benefit/defined contribution plans to new employees – allow existing employees to downgrade from higher tier to these lower tiers (pending IRS approval)

NOTE: The combined impact of implementing Step 2 and Step 3 will provide substantial incentives for city employees to migrate to these two alternative plans.

Step 5: Provide "Share-in-Savings" from Pension Reform

Provide "Share in Savings" Incentive Pool

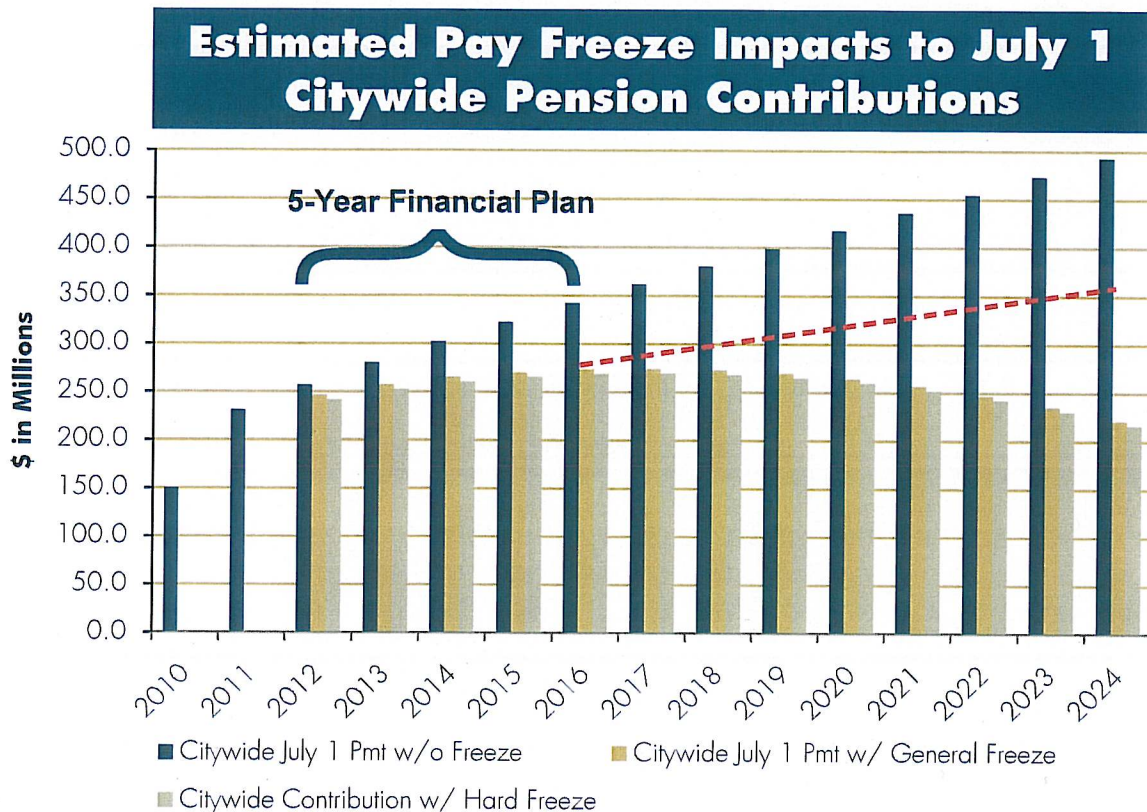
Assuming that the 20% reduction in annual pension costs are achieved through the reforms above, city employees would share in the savings and would be eligible to receive "non-pensionable" payments to augment their take-home pay in FY 15 and FY 16. Establishment of rules for how the payouts would be distributed in a fair manner would be the subject of Meet and Confer with labor unions.

Alternative: Allow Labor Unions to Offer Settlement Plans

Conduct a Charter Section 143.1 Vote to Reduce Benefits for Existing Employees

To provide additional avenues to achieve the 20% reduction target established in Step 1 of this process, city labor unions can utilize Charter Section 143.1 as a vehicle for collective, across-the-board reductions in defined benefit pensions for all existing employees – reducing the cost and liability.

Impact of Recovery Plan on Annual Payment for Defined Pension Benefits



Additional Pension Savings Available

This chart only models the five year freeze on "pensionable pay" for city employees. Additional savings will be generated and payments will be lowered once the impact of the following two reforms are also implemented:

- Streamlining city government/Managed Competition

- Opt-Out Program of city employees leaving higher benefit tiers for lower benefit tiers

For more information on the cost savings associated with these two reforms, consult the section on Commitment 4: Comprehensive Pension Reform.

Actuarial Scoring of the Roadmap to Recovery

Councilmember DeMaio's office obtained the services of Sheffler Consulting Actuaries to model the financial impact on the city's pension debt and associated annual payment from the reforms contained in the Roadmap to Recovery. All source data was obtained from the official actuarial valuation provided by SDCERS for the period ending June 30, 2009.

FY 12 Budget Matrix

Proposed Budget Balancing Actions	Projected FY 2012 Savings (\$ in millions)
Managed Competition	11.66
Landfill Franchise License	10.00
Retiree Health Reform	21.47
Pension (Pay Freeze)	8.10
Mayoral and Legislative Reductions	1.62
Mgmt Analyst/PIO Reductions	1.63
Arts & Culture Reductions	1.84
Contracts & Supplies Reduction	4.19
Eliminate Mgmt Leave and Mgmt Vehicle Allowance	0.05
Convention Center Debt Refunding	0.40
Eliminate Offsets	4.79
Eliminate Terminal Leave	0.12
Suspend Fire EMT Specialty Pay	4.83
Suspend Fire Mgt. Assignment Pay	0.72
Suspend Master Library Pay	0.26
Special Pay Reductions (MEA)	1.53
Risk Mgmt Audit Recommendations	0.25
City Council Pension Sub Equal Reform	0.05
Office of Mgmt & Budget Reorganization	1.62
2% General Salary Reductions (Estimated)	3.25
Redevelopment Repayment & Expense Transfer	3.01
Recovery Auditing & Audit Function Transfers	1.50
Expansion of Marketing & Strategic Partnerships	1.00
Office of Special Events Revenue from TMD	0.20
Mid-Year (One-time FY 2011 Savings)	3.10
Net Savings Subtotal	87.30
Public Safety Restorations	-3.00
Sub-Total	84.23
Projected Surplus/(Deficit)	11.8

Other FY 2012 Potential Savings

Pension - PSC Correction
Storm Water Unfunded Mandates
Revised SDCERS Contribution Rates



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